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Learning every day

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notify an official of the company in case of an overdraft in the fund account, it permitted the overdraft to continue. The reason given was that the company's general account and the fund account taken together showed a credit balance. Under the state laws, the bank could consider the two accounts as one.

The irregularity was not discovered until after the cashier had absconded. It would unquestionably have been detected sooner had an effective simultaneous verification been made of cash in hand, in bank, and in transit. The cashier would have had difficulty in explaining the discrepancy between the overdraft in the bank account and the balance shown by the petty cash book to be on deposit. The auditors, however, were instructed by the client not to visit the plant and verify the imprest fund there during their annual audits.

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TECHNICAL procedure in the execution of engagements long has been recognized as the most important phase of accountancy practice. There is another phase, however, which is so closely related to technical procedure that it is difficult to differentiate it therefrom if, indeed, it needs to be so differentiated. This phase might be described as the technique of professional relations. A careful analysis and strict classification of practice factors probably would place this item in the group of managerial functions. The proper classification of the item, however, is not so important as a recognition of its significance, a knowledge of what it comprehends, and prompt action in a situation where it is involved.

The technique of professional relations may be described in simpler words as procedure in handling situations which involve relations with clients and others growing out of the practice of accountancy. Accountancy practice, comparatively speaking, is a new profession. It is founded on a technical knowledge of accounting, economics, finance, business law, business organization, and business administration. Having to do largely with confidential affairs it requires, on the part of those who practice, honesty, integrity, and a high regard for the confidence which clients must of necessity repose in those whom they retain for professional service. In addition, the practice of accountancy calls for an understanding of human affairs, of a variety and complexity of situations which may arise, and ability to handle these situations with prompt and unerring judgment.

If the practitioner is unwilling to confess a limited knowledge of the technical side of his subject, if he bows to no other profession in the matter of integrity and appreciation of his responsible position, he must at least admit he has much to learn from experience in the matter of dealing with clients and related parties who become involved in the affairs thereof.

The following incident will serve to illustrate some of the foregoing philosophy better, perhaps, than any other attempt at elucidation. The officials of a certain bank recommended us to a concern in which the bank was interested through a line of credit. Our services were engaged to audit the client's accounts for a period of six months and prepare a report thereon. In the course of our work we encountered a situation which precluded the absolute verification of a certain item without an extensive investigation which the client preferred not to authorize, because of the time and expense involved and his pressing need for the report.

Proceeding in our usual manner under such circumstances, we qualified the item in the balance sheet and explained the situation in the comments of our report.

The client accepted the report after a review in the rough, and decided to have his own organization make the investigation necessary to trace each transaction in question and determine the actual amount involved in the qualified balance sheet item.

Before submitting our report to the bank, the client completed the investigation and found a considerable difference in the amount of the item as it had been stated with proper qualification in the balance sheet. The bank officials, upon receiving our report and the client's statement, criticised the client for lax methods and us for making what was branded as an incomplete audit. The client, however, omitted to tell the bankers of the limitation placed upon us by him, and we were left in an unenviable position in the eyes of the bank.

The situation came to our attention through the bank later when we were criticised for not having made a proper audit. A conference between the bankers and the client was therefore arranged immediately, and our position in the matter made entirely clear. The result was that our reputation was protected, our position was changed from an unenviable one to one entirely satisfactory, and at the request of the bank we were commissioned to continue our audit work, bringing it down to a date six months later than that specified in the original engagement, besides revising the client's accounting system.

The lesson to be drawn from this experience is that accountants need to give more attention to presenting all the aspects of a situation about which there might be question. Any one who reads our reports is entitled to judge them by the statements which they contain. The reports are subject to judgment from what they show on their face. It is too much to expect of readers that they will draw inferences which may be implied. They have a right to rely on what the reports set forth. They may not be expected to know what we intended them to mean but did not say.

In the report in question we stated that it was impracticable to verify the amount of a certain asset, and explained in some detail in our comments, what the item represented, which, together with the qualification on the balance sheet, would have made it impossible, as to this item, for any one to have been misled by our report. We did not make clear that the verification of the item was rendered impracticable by the limitation imposed upon us by the client, and the client inadvertently failed to make this clear to the bankers. Had we done so ourselves, through the medium of our report, the bankers would have been on notice as to our position in the matter and could have had no just cause for criticism in this respect.

It is inconceivable, of course, that situations similar to the one described could not have arisen in thirty years of practice. Undoubtedly, the same situation has arisen many times. Just at the moment, however, our recollection does not embrace a situation wherein all of the circumstances have been the same as in this case.

As accountancy practice wends its way, there is much to be learned from experience. The prompt and efficient handling of difficult situations involving clients and others undoubtedly will contribute much to a satisfactory standing in the business community. There are enough of these situations which cannot be avoided in a large practice. But much of the necessity of having to straighten things out later on will be avoided by careful forethought concerning the possibilities of misunderstanding.

There is probably no better way of preventing misunderstandings than by making reports so clear as to the facts in the case and as to what we have and have not done that there can be no possibility of anyone being misled.